

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DT 09-136

TRANSFER OF STOCK OF UNION TELEPHONE COMPANY TO
TDS TELECOMMUNICATIONS CORPORATION

PREFILED DIRECT TESTIMONY OF
MICHAEL C. REED ON BEHALF OF
TDS TELECOMMUNICATIONS CORPORATION

October 16, 2009

1 **Q. Please state your name and business address?**

2 A. My name is Michael C. Reed, and my business address is 24 Depot Square, Unit 2,
3 Northfield, Vermont 05663.

4
5 **Q. By whom are you employed, and in what capacity?**

6 A. I am employed by TDS Telecommunications Corporation (“TDS Telecom”) as Manager
7 State Government Affairs in TDS’ Government and Regulatory Affairs Department. I
8 have responsibility for the State Regulatory affairs and State Legislative affairs in Maine,
9 New Hampshire, Vermont, New York, and Pennsylvania.

10
11 **Q. Please describe your background and experience.**

12 A. I have held the position of Manager State Government Affairs at TDS Telecom since
13 1996. Prior to that, I held various positions with NYNEX Corporation including
14 regulatory affairs, switching and outside plant operations, service quality oversight and
15 maintenance, before opting for early retirement in 1996. I have previously participated
16 in proceedings and offered testimony before this Commission, The recent Incumbent
17 Local Exchange Carrier (ILEC) acquisition transactions in New Hampshire undertaken
18 by TDS Telecom include the acquisition of Wilton Telephone Company, Inc. (“WTC”)
19 and Hollis Telephone Company, Inc. (“HTC”) (Docket DT 02-033) and Merrimack
20 County Telephone Company (“MCT”) (Docket DT 02-009). The other TDS Telecom
21 operating ILEC in New Hampshire is Kearsarge Telephone Company (“KTC”), which
22 was acquired many years ago.

23

1 **Q. What are your duties at TDS Telecom?**

2 A. I directly manage regulatory, legislative and industry relations for 22 TDS Telecom
3 ILECs in the five state area I mention above. I have direct responsibility for each state's
4 regulatory and legislative activity. My duties include monitoring and participation in
5 regulatory dockets and proceedings, as well as legislative and industry activities.

6
7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to reaffirm the representations made in the notification
9 filed in this Docket under RSA 369:8, II(b) and to address the additional matters raised in
10 the Commission's Order No. 25,024 issued on October 8, 2009.

11
12 **Q. Mr. Reed, have you reviewed the representations made in the Notification by Union
13 Telephone Company and TDS Telecommunications Corporation Pursuant to RSA
14 369:8, II(b) filed on July 31, 2009?**

15 A. Yes, I have.

16
17 **Q. Are the statements made therein true and accurate to the best of your knowledge?**

18 A. Yes, they are.

19
20 **Q. Have you reviewed the Commission's Order No. 25,024 dated October 8, 2009?**

21 A. Yes, I have.

22

1 **Q. Turning to the additional items that the Commission directed the parties to address:**
2 **First, please clarify the anticipated future operation of Union under TDS Telecom**
3 **management and operation. (Please include in your answer a discussion of whether**
4 **the management and operations will be merged into the management and**
5 **operations of TDS Telecom or whether Union will continue to function as a stand-**
6 **alone entity.)**

7 A. Telephone and Data Systems, Inc. (“TDS”) is the parent company of TDS Telecom. Just
8 as KTC, MCT, WTC and HTC are wholly owned subsidiaries of TDS Telecom, Union
9 will also become a wholly owned subsidiary of TDS Telecom. TDS Telecom Service
10 Corporation (“TDS Service”) is a centralized service company for all operating telephone
11 companies owned by TDS Telecom.

12
13 Union will continue to function as a separate entity like KTC, MCT, WTC and HTC and
14 participate and benefit in the same way with TDS Service and with the other New
15 Hampshire ILECs. The majority of the services utilized by the New Hampshire operating
16 telephone companies are provided by employees of TDS Service. The departments
17 within TDS Service include Finance, Human Resources and Administration, Government
18 and Regulatory Affairs, President’s Office, Technology and Service Delivery, and
19 Marketing, Sales and Customer Operations. The employees are located at various
20 locations across the country, but primarily in Madison, Wisconsin, Knoxville, Tennessee,
21 Northfield, Vermont, and Roachdale, Indiana. TDS Long Distance Corporation will also
22 have services provided to and purchased from Union. The basis for the intercompany

1 allocation method for costs not directly assigned is provided in the TDS Master Affiliate
2 Transaction Agreement (“MATA”) filed with this Commission pursuant to RSA 366.

3
4 Following the closing, the Union employees may remain on the Union payroll or may
5 become employees of TDS Service, the centralized affiliated services entity. Changes
6 that may affect employees and employee benefits will be based on TDS Telecom
7 management decisions due to the change in ownership of Union. Such decisions have
8 not all been made at the present time.

9
10 TDS Telecom has employees and equipment that are shared among the New Hampshire
11 operating companies as well as other states. The equipment consists primarily of general
12 support assets for the centralized employees, centralized inventory, and billing system
13 infrastructure. For example the New Hampshire operating companies share in the
14 centralized functions such as billing, marketing, regulatory, accounting, finance, human
15 resources, network services and engineering, executive, and other services covered in the
16 MATA. In addition, personnel and equipment are utilized among the New Hampshire
17 operating companies in the most efficient manner as the day-to-day work load demands
18 require. In the event of a major work load demand such as weather-related events,
19 personnel and equipment are shared within New Hampshire, from other TDS ILECs in
20 neighboring states and from TDS Telecom.

1 **Q. Are there codes of conduct that will govern the relationship between Union and TDS**
2 **Telecom? If so, please describe them.**

3 A. The Codes of conduct that will govern the relationship between Union and TDS Telecom
4 during the regulatory approval process, the closing, and the post closing transition period
5 are described in the Stock and Asset Purchase Agreement, dated July 27, 2009 (“SAPA”).
6 Provisions of particular applicability in that regard would be the covenants provided in
7 Articles VII through XI of the SAPA and the Transition Services Agreement attached to
8 the SAPA as Exhibit B.

9
10 The codes of conduct that will govern the relationship between Union and TDS Telecom
11 following the closing are captured in the MATA.

12
13 **Q. Will changes be made to the Union billing system? If so, please describe those**
14 **changes and the transition plan to move from one system to the other?**

15 A. Yes. Similar to the acquisitions of MCT, WTC and HTC, the existing Union billing
16 will be transitioned into the TDS Telecom billing system, the same system currently
17 utilized to bill customers in the other four TDS Telecom operating telephone
18 subsidiaries in New Hampshire. All retail customer and carrier access billing will be
19 converted to the TDS Telecom internal billing system, and bills will be printed, mailed
20 and processed from centralized teams located in Wisconsin.

21
22 TDS Telecom manages the billing functions of its ILEC and CLEC companies within
23 its own internal operations and with its internal employees pursuant to the MATA.

1 Union will be covered under the MATA after the closing upon notice to the
2 Commission. At present, TDS Telecom plans to manage the transition of the Union
3 billing conversion with the internal TDS Telecom staff. The process will be similar to
4 that employed by TDS Telecom for the transition of the billing functions for MCT,
5 WTC and HTC.

6
7 **Q. Will there be any changes regarding customer support services, including location
8 and staffing of call centers? If so, please describe them.**

9 A. There are a large number of changes that will be made to integrate the Union operations
10 into the TDS Telecom system. Again, the same systems are utilized to manage the MCT,
11 KTC, HTC, and WTC operations. CONFIDENTIAL Exhibit A attached to this
12 testimony provides a summary of the process and timetables typically used by TDS
13 Telecom to transition companies like Union into the TDS Telecom systems. It includes
14 operational changes and transition of the Union call center into the TDS Telecom
15 national call system which distributes calls from customers at all of its telephone
16 companies to TDS Telecom sales and repair advisors located around the country. TDS
17 Telecom does not have any plans to close any Union facilities at this time. TDS Telecom
18 will evaluate customer traffic and review utilization of facilities during the transition
19 period and into the future.

20
21 TDS Telecom will convert data and functionality for message processing, message
22 assembly and rating, end user billing, and carrier access billing data and functionality to
23 its own internal billing systems and processes. Union's plant record data, CAD maps,

1 DSL and e-mail will be converted to the TDS Telecom network and information systems
2 as well.

3
4 **Q. What other operational changes will there be as a result of the transaction? Please**
5 **include in your response any effect on employees, work location and management**
6 **services to be provided by TDS Telecom.**

7 A. There are a large number of changes that will be made to integrate the Union operations
8 into the TDS Telecom systems and operations. Again, the same systems are utilized to
9 manage the MCT, KTC, HTC, and WTC operations. CONFIDENTIAL Exhibit B
10 attached to this testimony also provides a list of the systems involved in the transition
11 detailed in CONFIDENTIAL Exhibit A.

12
13 In the network operations area, TDS Telecom plans to retain the current Union central
14 office locations. Some switching functions such as translations and switch monitoring
15 will be centralized in Madison, Wisconsin to ensure a more efficient and consistent 24x7
16 switch interface and switch surveillance.

17
18 TDS Telecom will have local technicians located at Union to perform the same
19 maintenance functions and to complete customer installation and repair. Supervision will
20 be provided as it is today for the other New Hampshire companies with local and regional
21 management staff. Advanced technical support for voice and data will be provided by
22 the TDS Telecom Centralized Network Management Operations (“NMO”) unit, which
23 will monitor the Union network 24x7.

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Union’s data and voice network equipment will be transitioned to the TDS Telecom network management and monitoring system, and all network alarms and escalations will be handled by this system and the NMO.

Trouble reports will be managed through a centralized trouble reporting and tracking system which routes tickets throughout the operations teams within TDS Telecom. Technician scheduling and dispatch will be transitioned to TDS Telecom’s centralized dispatch system, so that customer service orders can be efficiently worked and tracked.

Switch translations and the provisioning of service orders will be managed by TDS Telecom’s centralized teams through integrated billing and plant records systems and processes.

Accounting and financial data will be transitioned to TDS Telecom’s internal accounting system (“SAP”), and employees will enter time into the TDS Telecom web based time entry system. Payroll and benefits will be converted to TDS Telecom systems or to external third party providers utilized by TDS Telecom.

There will be some impact to Union’s employees as a result of the merger and transition described above. The Union operations and employees will be integrated into the TDS Telecom systems and methods, and the operational changes will likely affect some employees. Further employee specific information is provided in Section 8.2 of the

1 SAPA. Ultimately, TDS Telecom will determine how each transferred employee will be
2 utilized during and after the transition.

3
4 There are no specific plans for employees at this time, as TDS Telecom does not know
5 how long the approval process will take and, therefore, when the closing and transition
6 will occur. TDS Telecom will interview and evaluate the skill sets and desires of each
7 employee, and determine if the employees can be utilized as they are now within the
8 Union operations, or perhaps be transitioned into the TDS centralized functions, or
9 perhaps be better utilized in and among the other TDS Telecom New Hampshire
10 operating companies. This process may mean change for some employees. More
11 importantly, however, this process and the acquisition provides opportunities to Union's
12 employees for growth in a national company that these employees otherwise would not
13 have if the transactions contemplated by the SAPA are not consummated.

14
15 Refer also to my earlier explanation of Unions future operations under TDS Telecom.
16 Union will be integrated into the TDS Telecom systems, and will participate in balancing
17 the workloads in the most efficient manner.

18
19 **Q. What changes, if any, will there be to the benefits for employees and retirees? Is**
20 **there a transition plan to move from one benefits package to the other?**

21 A. There will be changes in the benefits for the Union employees. Many of the changes
22 become effective immediately after closing. Some such as medical benefits will continue
23 on the current plan through 2009, and if closing is before year end would transfer over to

1 the TDS benefit plan in 2010. CONFIDENTIAL Exhibit C attached to this testimony
2 provides a comparison. Further detail is also provided in Section 8.3 of the SAPA.
3

4 **Q. What allocations will be made from TDS Telecom to the operating company? How**
5 **do those allocations compare to the services currently provided?**

6 A. The MATA addresses the management services and other services provided by TDS
7 Telecom and its affiliates. The costs attributed to Union will be comparable to the cost of
8 services currently provided by TDS Telecom and its affiliates to the other TDS Telecom
9 ILECs in New Hampshire and across the country. CONFIDENTIAL Exhibit D provides
10 a pro forma comparison of the estimated revenues and expenses under current Union
11 operations to the estimated revenues and expenses under the TDS Telecom ownership
12 and management. Union provided the estimated revenues and expense changes related to
13 current Union operations for this comparison based on discussions with TDS Telecom.
14 Please note that these are very preliminary estimates at this time and do not reflect the
15 impacts of competition and other variables that will also affect the financial results over
16 time.
17

18 The Commission's telecom staff and audit staff are very familiar with the allocation
19 process utilized by TDS Telecom to share the centralized service costs and expenses
20 among affiliates. In fact, KTC has been audited as recently as 2007. MCT, HTC and
21 WTC have all been audited for fiscal years during which the MATA has been in effect.
22
23

1 **Q. What is TDS Telecom's investment plan for the Union service territory?**

2 A. I have been advised by Union that its capital expenditures for regulated operations in
3 fiscal years 2007 and 2008 and through August 31, 2009 were: 2007 \$1,202,000; 2008
4 \$688,000; and actual through 8/31/2009 is \$243,000. The amount of projected capital
5 expenditures for all of 2009 is \$350,000. Capital expenditures for small companies such
6 as Union do tend to fluctuate from year to year.

7
8 TDS Telecom has not yet developed a detailed capital expenditure forecast for Union.
9 When TDS Telecom completes a network architectural study post merger, it is expected
10 the study will result in the establishment of a network cluster plan that should, among
11 other things, identify and prioritize network additions and upgrades. Capital expenditures
12 will be made to maintain and continue deployment of state of the art communications at
13 Union.

14
15 **Q. Do you have any further information to provide to the Commission regarding the**
16 **relationship among Union, TDS Telecom and the affiliated entities that may be**
17 **implicated by the transaction?**

18 A. The detailed SAPA clearly defines the relationships during the regulatory approval
19 period, and during the transaction following the closing. The MATA clearly defines the
20 ongoing interactions among Union, TDS Telecom and other TDS Telecom affiliates. The
21 MATA protects consumers from risks of cross-subsidization of non-jurisdictional
22 affiliates.

23

1 Perhaps most significantly, TDS Telecom has a proven track record of acquisitions,
2 integrations and operations in New Hampshire that the Commission can rely upon. These
3 are not merely promises. We have a proven history of performance.

4
5 **Q. Mr. Reed, in your opinion, will the transfer of the stock of Union to TDS Telecom be**
6 **for the public good and lawful, proper and in the public interest?**

7 A. Yes, it will, for mainly the same reasons that the Commission found the acquisitions of
8 MCT, HTC and WTC in the public good.

9
10 **Q. Why is that?**

11 A. This transaction will have no adverse impact on the local rates in Union; there will be no
12 adverse impact on the service, terms or operations of Union. The jurisdiction of the
13 Commission over the post-merger operations will not change.

14
15 In addition, we believe that the Commission should recognize the quality network TDS
16 currently has in place in New Hampshire and the ongoing commitment TDS Telecom is
17 making in New Hampshire. Since the acquisitions of MCT, HTC and WTC, these
18 companies have seen upgrades to the networks, including switching replacements,
19 expansion of broadband to all exchanges, connectivity between the four companies that
20 allows or will allow diversity of routing as well as the aggregation of traffic and
21 increasing bandwidth availability. TDS Telecom has provided for improvements of
22 switching and transport services and infrastructure that involve the integration of the New

1 Hampshire operating companies and TDS Telecom affiliates to improve the overall
2 network and bring new and innovative services to New Hampshire.

3
4 A very exciting effort under way that involves the New Hampshire operating companies
5 is the TDS High Speed Data Initiative in which New Hampshire is one of six Regional
6 Hub Sites for Super High Speed Data. This effort is allowing service offerings up to 25
7 MB, Fiber to the Home and Fiber to Node in some New Hampshire locations. Union will
8 become part of the TDS network that provides these benefits to customers.

9
10 The Commission is well aware of the competitive pressures the ILECs in New
11 Hampshire are facing today and in the very near future. Merging Union into the TDS
12 Telecom system and providing the efficiencies and benefits of shared resources and the
13 access to innovative networks and marketing expertise will provide benefits to Union and
14 its customers in the long run to weather the impacts of the competitive storm. Impacts on
15 local rates, should there be any in the future will not come as a result of this transaction,
16 but rather due to loss of revenue and customers in the face of competition.

17
18 TDS Telecom has successfully completed 8 acquisitions/mergers in 4 states over the past
19 8 years, ranging in size from 800 access lines to over 40,000 access lines. These ILECS
20 have been successfully integrated into the TDS operations using the processes and
21 systems described earlier in this testimony. In New Hampshire, TDS has successfully
22 integrated MCT, HTC and WTC into the systems, met its service commitments,
23 continued to invest in the network and bring innovative services to the residents of New

1 Hampshire. In Order 23,961 in DT 02-009, and likewise in Order 23,979 in DT 02-098
2 the Commission approved stipulations whereby the Parties, and staff agreed that TDS has
3 the requisite financial, managerial and operations abilities to oversee the companies. The
4 Commission should reach the same conclusion for the Union acquisition. TDS Telecom
5 therefore respectfully requests that the Commission expedite the approval process for this
6 Docket and allow the parties to close on the transactions contemplated by the SAPA.

7
8 **Q. Does that conclude your testimony?**

9 **A.** Yes, it does.